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SUBJECT: ARGENTINA, SPAIN CONTAIN AEROLINEAS DISPUTE, CARRY  
OFF A MOSTLY POSITIVE STATE VISIT BY CFK

REF: A. BUENOS AIRES 118  
[1](#)B. 08 BUENOS AIRES 1476  
[1](#)C. MADRID 59

[1](#)1. (U) This cable was coordinated with Embassy Madrid.

[1](#)2. (SBU) Summary: President Cristina Fernandez de Kirchner (CFK) survived a potentially conflictive state visit to Spain and received good press locally on her two days of events. Both she and her Spanish counterpart, President Jose Luis Rodriguez Zapatero, acknowledged but also contained the lingering dispute over Argentina's renationalization of Aerolineas Argentinas from Spanish conglomerate Marsans. GOA sources prior to the trip had said the President's first objective was to gain Spain's reaffirmation that Argentina was a worthy destination for Spanish investment, and President Zapatero provided just that, stating that his government would support Spanish investment in Argentina. In a joint press conference in which both Presidents addressed the upcoming G-20 meeting, CFK returned to one of her standard themes, calling for a new international system that would hold the rich and powerful to the same standards as less influential countries. She argued that the United States had gotten away with budget deficits that would not have been allowed of smaller countries, that the United States was largely responsible for the global financial crisis, and that countries needed to consider an alternative to the U.S. dollar as a reserve currency. End Summary.

[1](#)3. (U) Argentine President Cristina Fernandez de Kirchner (CFK) was received by Spanish President Rodriguez Zapatero and by Spanish King Juan Carlos during a two-day State Visit February 9-10. Argentine press before the visit speculated that the renationalization of Aerolineas Argentinas from Spanish conglomerate Marsans as well as the nationalization of private pension funds, some of which were owned by Spanish banks, would cause friction during the visit, a concern that was shared also in the Governments of Argentina and Spain (Reftels A, C). Press also focused on the fact that Santa Fe Province Senator Carlos Reutemann had declined an invitation to join the large party of business, labor, and government officials traveling with the President, with speculation that he sought to maintain distance from the Kirchners despite talk that he might ultimately be their candidate in 2011 presidential elections.

[1](#)4. (SBU) Influential Argentine Planning Minister Julio de Vido, accompanying the President and involved in several of the commercial talks, described the State Visit as CFK's most important to date given Spain's importance to Argentina in

commercial and cultural terms. And, by the standard of disasters avoided, the visit appeared to go off relatively well and generate from both governments the commitment to a positive bilateral relationship despite commercial frictions.

In fact, the Argentine press carried fairly positive reports on her two days of events.

#### Aerolineas Looms, Recedes

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¶15. (U) Despite reported concerted efforts to finalize a deal prior to CFK's travel, neither the run-up nor the visit yielded an agreement on compensation to previous owner Spanish tourism group for the GOA's nationalization of Argentina flag carrier Aerolineas Argentinas, previously owned by Spanish tourism group Marsans (Reftel B). Marsans has filed suit against the GOA in the World Bank's International Center for the Settlement of International Disputes (ICSID) but will reportedly drop the suit if an acceptable compensation agreement is reached.

¶16. (U) The proposed deal hinges on the GOA taking over contractual obligations from Marsans to purchase up to thirty Airbus planes valued at US\$2-3 billion out of as many as 73 that Marsans had earlier contracted to buy. Marsans "compensation" would reportedly be the return to it by Airbus of an earlier downpayment in the US\$100 million range. Daily "La Nacion" reported on 11 February that Spanish President Zapatero had discussed with CFK the possibility that Spain would provide some of the financing for this purchase to facilitate a deal. Daily "Clarín" reported February 12 that a sticking point in negotiations appears to be an Airbus

requirement that the GOA/Aerolineas pay it US\$400 million up front.

¶17. (SBU) Even if the GOA can come up with the sizable downpayment, the GOA's ability to finance the balance of this large purchase will be challenging (Airbus reported wants "sufficient guarantees" of payment). (Note: Aerolineas recently signed a letter of agreement with Boeing for the purchase of twelve 737s; financing for that deal has also yet to be secured.)

¶18. (SBU) Despite the tension over the Aerolineas nationalization, President Zapatero offered on February 9 the diplomatic formulation that this dispute and other points of friction constituted only "one percent" of cases in the overall commercial relationship, and that "99 percent" of the business relationships were positive. He described his government's continued support for Marsans and hope that a mutually satisfactory settlement would be reached. Argentine press reported that some in the Spanish Government had felt Marsans was pushing too strongly to make the overall Spain-Argentina bilateral relationship contingent on their commercial dispute. CFK said that the government had not sought nationalization but had found it necessary to guarantee "continuity of an essential service" for the Argentine people and that the GOA also sought a reasonable settlement.

#### Other Business News

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¶19. (SBU) Local media reported that Spanish/Argentine hydrocarbon major Repsol/YPF confirmed to CFK that the company would continue with the US\$2 billion investment plan it had announced in 2008 and strive to sustain employment. Spain's Telefonica pledged to continue investing in Argentina and reaffirmed its plans to invest \$1.7 billion to develop broad band and "nextgen" cellular services.

#### Atmospherics

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¶10. (SBU) CFK was reportedly received three times by the Spanish King, including at the formal dinner to which the Argentine President was a half-hour late, and had a

substantive exchange with President Zapatero. Press reported a positive tone, reflecting the overarching desire of these two large, culturally close and commercially intertwined partners to keep things positive despite Spanish disappointments with various aspects of Argentine commercial policy. References by the King and Spanish President to judicial security were described by leading Argentine columnist Joaquin Morales Sola ("La Nacion") as an oblique and diplomatic way of marking deep Spanish concerns about Argentine decisions on Aerolineas, pension funds, and other commercial decisions. Argentine press later picked up Spanish press critiques of CFK's tardiness and other gaffes in Madrid (para 12).

#### The Unfairness of It All

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¶11. (SBU) Columnist Morales Sola also noted the ideological angle CFK took in discussing the upcoming G-20 meetings in a joint press appearance with President Zapatero (whereas Zapatero had focused on pragmatic proposals). Among CFK's recommendations were that countries would need to launch counter-cyclical policies, something she said the IMF did not allow of countries except the United States, which was allowed to run an enormous deficit financed by the rest of the world. "One thing we will have to discuss then," she said, "is whether the dollar will remain as the world's reserve currency, because if it does and if the United States continues to be the source of toxic financial instruments and the world's most phenomenal budget deficit, financed by the financial reserves of all the rest of the world's countries, then I believe we will not get out of this crisis." She also noted the unfairness of a system that had been sustained in recent years by developing country growth rates but that would now punish these countries the most as capital was quickly transferred to financial safe havens or to the United States.

¶12. (SBU) Embassy Madrid Comment: Spanish commentators focused on CFK's perceived undiplomatic behavior while in Spain. Not only was her three-day trip shortened to only two days before it even began, but she was described by one journalist as "tip-toeing" through the Spanish capital, past business leaders with whom she refused to meet publicly. The Argentine President was further criticized for remaining seated to address a special February 10 joint session of both houses of the Spanish Congress, during which she also defended dialogue with terrorists one day after the Basque terrorist group ETA detonated a car bomb (injuring none) near Madrid's international fairgrounds. Spanish MFA sources were pleased with the visit, which went as well as could be expected despite the very public commercial dispute, but they noted that Grupo Marsans did not share that view.

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